

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-008
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Harvey Hunter, CPA

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-008

10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Darrin Mercier, President
Board of Directors
10th DAA, Siskiyou Golden Fair
1712 Fairlane Road
Yreka, California 96097

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 10th District Agricultural Association (DAA), Siskiyou Golden Fair, Yreka, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 10th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

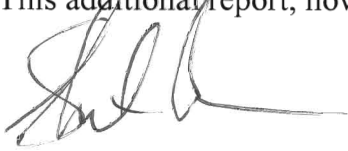
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 10th DAA, Siskiyou Golden Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 10th DAA, Siskiyou Golden Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-008, on the 10th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 10th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



For Ron Shackelford, CPA
Chief, Audit Office

March 28, 2008

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash in Bank	111 - 117	\$ 503,752	\$ 452,947
Accounts Receivable, Net	131	31,767	699
Deferred Charges	143	4,455	4,002
Construction in Progress	190	6,047	-
Equipment, Net	193	20,577	31,972
Leasehold Improvements, Net	194	886,706	813,324
TOTAL ASSETS		1,453,304	1,302,945
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	4,756	3,965
Other Payables	221 - 226	-	612
Deferred Income	228	23,740	16,703
Compensated Absences Liability	245	26,432	29,759
Total Liabilities		54,928	51,040
Net Resources			
Net Resources - Operations	291	485,046	406,609
Net Resources - Capital Assets, less related debt	291.1	913,330	845,296
Total Net Resources Available		1,398,376	1,251,905
TOTAL LIABILITIES AND NET RESOURCES		\$ 1,453,304	\$ 1,302,945

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006**

	Account Number	2007	2006
REVENUE			
State Allocation	312	\$ 150,000	\$ 150,000
Capital Project Reimbursements	319	-	59,059
Other Revenue	340	96,632	43,771
Admissions	410	118,530	94,743
Commercial Space	415	40,011	38,138
Carnival	421	70,431	68,564
Concessions	422	89,331	79,520
Exhibits	430	4,797	4,980
Horse Show	440	3,064	2,954
Attractions - Fairtime	460	114,742	72,345
Miscellaneous Fair	470	78,601	67,988
Non-Fair Revenue	480	100,091	93,083
Prior Year Adjustment	490	1,251	254
Other Operating Revenue	495	47,004	22,286
Total Revenue		914,486	797,683
EXPENSES			
Administration	500	215,368	209,658
Maintenance and Operations	520	224,663	209,376
Publicity	540	23,405	18,811
Attendance	560	36,625	34,173
Miscellaneous Fair	570	15,693	16,107
Premiums	580	20,231	17,827
Exhibits	630	16,843	20,030
Horse Show	640	7,086	7,936
Attractions - Fairtime	660	159,548	117,243
Prior Year Adjustments	800	(142,155)	9,832
Cash Over/Short from Ticket Sales	850	362	8
Depreciation Expense	900	98,359	66,505
Other Capital Expenditures, Reimbursable	945	91,987	40,091
Total Expenses		768,014	767,595
RESOURCES			
Net Change - Income / (Loss)		146,472	30,088
Resources Available, January 1		1,251,905	1,221,817
Resources Available, December 31		\$ 1,398,376	\$ 1,251,905

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 146,472	\$ 30,088
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(31,068)	2,222
(Increase) Decrease in Deferred Charges	(454)	(2,285)
Increase (Decrease) in Accounts & Other Payable	179	484
Increase (Decrease) in Deferred Income	7,037	(3,127)
Increase (Decrease) in Compensated Absence Liability	(3,327)	184
Total Adjustments	<u>(27,633)</u>	<u>(2,522)</u>
Net Cash Provided (Used) by Operating Activities	<u>118,839</u>	<u>27,566</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction-in-Progress	(6,047)	-
(Increase) Decrease in Leasehold Improvements	(73,382)	30,608
(Increase) Decrease in Equipmen	<u>11,395</u>	<u>2,175</u>
Net Cash Provided (Used) by Investing Activities	<u>(68,034)</u>	<u>32,783</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	50,805	60,349
Cash at Beginning of Year	452,947	392,598
CASH AT END OF YEAR	<u><u>\$ 503,752</u></u>	<u><u>\$ 452,947</u></u>

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 10th District Agricultural Association (DAA) was formed on May 23, 1927, for the purpose of sponsoring, managing, and conducting the Siskyou Golden Fair each year in Yreka, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment – The County of Siskiyou leases land to the 10th DAA for the purpose of conducting fairs and expositions. The term of the lease is from February 1, 2001 to January 31, 2051 with an annual fee of \$1.00. The lease includes real property along with all buildings and other appurtenances on the leased land.

Construction-in-progress, land, Leasehold improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Leasehold improvements and equipment are depreciated over a period of thirty and five years respectively. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at fair market value on the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-

Progress and no depreciation is recorded until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 100	\$ 100
Cash in Bank - Operating	4,920	2,083
Cash in Bank - Premium	00	00
Cash in Bank - Payroll	24,625	00
Cash in Bank – Time Deposits	<u>474,107</u>	<u>450,764</u>
Total Cash and Cash Equivalents	<u><u>\$ 503,752</u></u>	<u><u>\$ 452,947</u></u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimate of collectability.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 31,767	\$ 699
Accounts Receivable - CCA	00	00
Allowance for Doubtful Accounts	<u>00</u>	<u>00</u>
Accounts Receivable - Net	<u><u>\$ 31,767</u></u>	<u><u>\$ 699</u></u>

NOTE 4

LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Leasehold Improvements	\$ 2,982,798	\$2,841,435
Less: Accumulated Depreciation	<u>(2,096,092)</u>	<u>(2,028,111)</u>
Building & Improvements - Net	<u>\$ 886,706</u>	<u>\$ 813,324</u>
 Equipment	 \$ 353,496	 \$ 363,077
Less: Accumulated Depreciation	<u>(332,919)</u>	<u>(331,105)</u>
Equipment - Net	<u>\$ 20,577</u>	<u>\$ 31,972</u>

NOTE 5

RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6 **DEFERRED INCOME**

Deferred income totaling \$23,690 at December 31, 2007 consist of unspent capital flex funds totaling \$8,734, 2008 facility rental revenue received in 2007 totaling \$12,855, and unspent junior fair board funds totaling \$2,101.

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 10th DAA Board of Directors
1	Chief Executive Officer, 10th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

MANAGEMENT REPORT #08-008

YEAR ENDED DECEMBER 31, 2007

10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Harvey Hunter, CPA

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-008

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Darrin Mercier, President
Board of Directors
10th DAA, Siskiyou Golden Fair
1712 Fairlane Road
Yreka, California 96097

In planning and performing our audit of the financial statements of the 10th District Agricultural Association (DAA), Siskiyou Golden Fair, Yreka, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Siskiyou Golden Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 10th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 10th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 10th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 10th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 10th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 10th DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, junior livestock auction, and purchasing procedures. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 10th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

An examination of fixed asset records and accompanying California Construction Authority (CCA) Project Closeout Reconciliation reports identified the following weaknesses:

- a. The Fair's property ledger does not agree to the general ledger for Account #194, Leasehold Improvements. Our office noted a \$50,423 variance between the two ledgers. In addition, the property ledger does not agree to the depreciation schedule, which agrees to the general ledger. The property ledger is a subsidiary ledger, which maintains detailed fixed asset information to support the general ledger account balance and the depreciation schedule. Based on our examination, our office determined the property ledger to be incorrect and incomplete.
- b. The Fair did not capitalize one capital project identified from the CCA Closed Project Status Report totaling \$25,107 at year-end 2007. As a result, the amounts reported for Account #194, Leasehold Improvements, at year-end were under-stated. Our office made the necessary correcting journal entry to ensure the Fair's assets were fairly stated. In the future, the Fair should examine project information from the CCA Closed Project Status Report to ensure capital projects completed on the fairgrounds were correctly accounted for in its accounting records.

Recommendations

1. *The Fair should ensure that the property ledger, general ledger, and depreciation schedule agree at year-end by performing a year-end reconciliation. Any discrepancies should be researched and resolved prior to closing the accounting period and preparing the year-end accounting reports.*
2. *The Fair should make the necessary correcting journal entry to ensure the omitted capital project is fully accounted for within its accounting records. In the future, the Fair should ensure that all capital projects costs as noted per the CCA Closed Project Status Report are properly recorded in the property and general ledger prior to closing the accounting period.*

JUNIOR LIVESTOCK AUCTION

The Fair exposes itself to loss by not providing any oversight over junior livestock auction (JLA) activities. All JLA activities are managed by the JLA Committee (JLAC), which has sole administrative and fiscal control over JLA operations. All records concerning the auction are maintained by the JLAC. An examination of the Fair's role in the JLA revealed the following weaknesses:

- a. The Fair maintained no financial reports prepared by the JLAC. Without financial reports, it is difficult for the Fair to provide fiscal oversight of JLA activity. According to the F&E approved Accounting Procedures Manual (APM), all records

concerning the auction shall be kept by the fair and will be subject to audit by the fair and the CDFA.

- b. The Fair is not named on the JLAC checking account as suggested by the APM. Regardless of what entity manages the JLA, the Fair should be listed on the checking account under the official name of the bank account holder (i.e., non-profit JLAC). This is required because the JLA is sanctioned by the Fair and without the Fair there would be no need for the non-profit JLAC.

Recommendations

3. *The Fair should comply with the APM and improve its fiscal oversight of JLA activities by obtaining and reviewing JLAC prepared financial reports.*
4. *The Fair should comply with the APM by ensuring they are named on the JLAC checking account as a second signature. The Fair may consider limiting its involvement to checks that exceed a pre-determined maximum limitation.*

PURCHASING PROCEDURES

The Fair made opportunity purchases during 2007; however, the Fair did not document that purchases made locally were at a price equivalent to or less than that available through the state-purchasing program. Opportunity purchases allow DAA's to purchase commodities from any source provided it meets or beats the state price. In addition, Section 10321 of the Public Contract Code (PCC) states that local businesses often provide opportunity purchases to local fairs that may be purchased locally at a price equivalent to or less than that available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary.

Recommendation

5. *The Fair should follow the F&E approved opportunity purchasing guidelines in the Purchasing Manual (APM) and prepare an opportunity purchase justification noting that the purchase made locally was at price equivalent to or less than that available through the state-purchasing program.*

NON-REPORTABLE CONDITIONS

MULTI-YEAR STANDARD AGREEMENTS

The Fair was not in full compliance with F&E's Contracts Manual in regard to several multi-year contracts it entered into. Our office examined the Fair's standard agreements and noted the Fair did not prepare a written justification for four multi-year contracts. According to the F&E Contracts Manual, a written justification is to be prepared explaining why a multi-year contract is in the best interest of the Fair.

Recommendation

The Fair should comply with the F&E Contracts Manual and ensure that all multi-year contracts contain a written justification explaining why a multi-year contract is in the best interest of the Fair. The justification should be retained within the contract file for audit purposes.

INDEPENDENT CONTRACTORS

The Fair classified several individuals as independent contractors; however, they appear to be employees. The IRS expects a business to have strong and well-documented evidence to support its position that a worker or workers are independent contractors. In addition, the Employment Development Department (EDD) has prepared a list of 24 common law elements to help State agencies distinguish between an independent contractor and an employee. The Fair should be cautioned that misclassifying individuals could result in fines and penalties pursuant to the FLSA or applicable state laws. Therefore, the Fair should receive clarification from the IRS or the EDD as to the proper classification of these individuals who render services to the Fair.

Recommendation

The Fair should properly classify individuals providing services to the Fair. If the Fair is unsure of the classification, they should contact the IRS for a ruling by completing IRS Form SS-8, Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding. This form should be used when it is necessary to seek IRS assistance in determining independent contractor/employee status. The Fair may also contact the EDD for assistance. This will protect the Fair from any unnecessary fines and penalties should an individual hired by the Fair be misclassified.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



PROMOTING EXCELLENCE IN AGRICULTURE
AWARENESS AND EDUCATION

The State of California
10th District Agricultural
Association

Rebecca Desmond, CEO
Darrin Mercier, President

1712 Fairlane Road
Yreka, CA 96097

Office: 530-842-2767
Fax: 530-842-4724

June 25, 2008

Ron Shackelford, Chief – Audit Office
State of California
Department of Food & Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

RE: Management Report #08-008
Reportable & Non-Reportable Conditions

Please accept this letter as a response to our preliminary draft of the management report for the year ending December 31, 2007. We appreciate your patience and understanding in accepting this report past the 30-day request due to 10th DAA Board of Directors meeting schedules.

REPORTABLE CONDITIONS:

Accounting for Fixed Assets

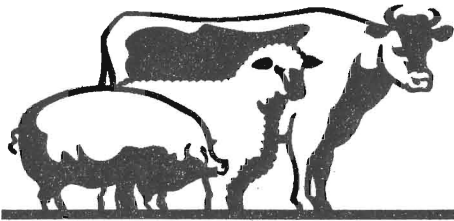
1. *The Fair should ensure that the property ledger, general ledger, and depreciation schedule agree at year-end by performing a year-end reconciliation. Any discrepancies should be researched and resolved prior to closing the accounting period and preparing the year-end accounting reports.*
2. *The Fair should make the necessary correcting journal entry to ensure the omitted capital project is fully accounted for within its accounting records. In the future, the Fair should ensure that all capital projects costs as noted per the CCA Closed Project Status Report are properly recorded in the property and general ledger prior to closing the accounting year.*

The Fair had a very complex depreciation schedule which has been condensed to show just the applicable items. Control sheets for Buildings & Grounds and Equipment have been created to summarize the detailed property ledger per the auditor's request. The detailed sheets show the historical value of the structure/equipment; therefore all depreciation amounts and adjustments were removed. The detailed ledger was showing the book value of the structure instead of the historical value so this has been revised as well. Project files were reviewed again to make sure all CCA Closeout Reports were accounted for in the Property Ledger. The Fair has the Property Ledger, the General Ledger, the Depreciation Worksheet and the DGS-RESO Structure Report all consistent with one another. On an annual basis, those documents mentioned will be reviewed and revised to reflect the current year adjustments.

Junior Livestock Auction

1. *The Fair should comply with the APM and improve its fiscal oversight of JLA activities by obtaining and reviewing JLAC prepared financial reports.*
2. *The Fair should comply with the APM by ensuring they are named on the JLAC checking account as a second signature. The Fair may consider limiting its involvement to checks that exceed a pre-determined maximum limitation.*

To begin, there needs to be a clarification regarding the auditor's statement that "The Fair exposes itself to loss by not providing any oversight over junior livestock auction (JLA) activities." That statement is untrue. One member of the



10th District Junior Livestock Auction Committee
1712 Fairlane Road, Yreka, CA 96097
530-842-2767 Fax 530-842-4724

June 2, 2008

Rebecca Desmond, CEO
Siskiyou Golden Fair
1712 Fairlane Road
Yreka, CA 96097

Dear Rebecca,

This letter is in response to the CDFA auditor's finding in your 2007 audit regarding fiscal oversight of this Junior Livestock Auction Committee (JLAC) by the 10th District Agricultural Association known as the Siskiyou Golden Fair. This Committee strongly objects to the requirements of the CDFA Accounting Procedures Manual Sections 5.4 and 5.41.

The 10th District Livestock Auction Committee has been in existence for more than 30 years and has always operated as a separate entity from the Siskiyou Golden Fair. We became an official 501(c)3 in 2001 and our bylaws require the participation of one fair board member and the fair CEO as members of our board of directors, the CEO as an ex-officio member. We believe this provides more than adequate fiscal oversight of the JLAC even though all monies earned and expended by the JLAC are private JLAC funds and the State has no jurisdiction over them. There are no public funds involved the operation of the JLAC whatsoever. The JLAC maintains a 6% reserve in our accounts. There is no need for the fair to maintain our financial records. We are audited by an independent auditor every two years.

We do not agree with the premise that we exist solely due to the fair. Should the state health concerns regarding animals at fairgrounds grow to extent that livestock are no longer allowed at fairs, this committee will not cease holding an annual junior livestock auction for the 4-H and FFA youth of Siskiyou County. That is our purpose. The Siskiyou Golden Fair currently provides us with that opportunity through a contract that requires us to provide insurance for our auction and to perform at least one fair improvement project in the livestock area of the fairgrounds each year. In 2008, we spent \$11,000 on a new show ring sound system and a new digital beef and sheep scale.

We are very willing to assist you in your efforts to revise the CDFA Accounting Procedures Manual regarding independent auction committees for the betterment of all California fairs and junior livestock auction committees.

Sincerely,

A handwritten signature in black ink that reads "Dena Griffin". The signature is written in a cursive, flowing style.

Dena Griffin, President

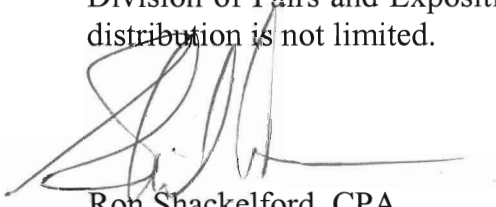
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 10th DAA, Siskiyou County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between March 17, 2008 and March 28, 2008. My staff met with management on March 28, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
For Chief, Audit Office

March 28, 2008

REPORT DISTRIBUTION

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1	Director, Division of Fairs and Expositions
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